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SUBJECT: 43 BILLION FOR LABOR UNLIKELY TO PROVIDE RELIEF

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Classified By: EconMinCouns Eric T. Schultz, Reasons 1.4 (b,d)

SUMMARY

¶11. (C) Billions of rubles programmed for regional employment stimulation are unlikely to ease labor market stress owing to unrealistic targets, local government corruption, and poor planning. The Russian federal government intends to use new regional labor programs to create one million jobs, train and relocate workers, and develop small businesses nationwide. Academics, bankers, and labor leaders, however, contend that while assistance for unemployed, underemployed, and at-risk workers is crucial for social stability, the government-backed regional employment scheme is woefully unequal to the task. Experts were especially critical of the GOR's plan to offer SME loans to the unemployed, which they said would face insurmountable obstacles. End summary.

RUSSIA ALLOCATES BILLIONS TO STIMULATE EMPLOYMENT

¶12. (U) As noted in reftel, late last year, the GOR allocated 43.7 billion rubles to subsidize regional programs aimed at reducing labor market stress. The federal government will establish agreements with each region through which it will provide 95 percent of program funding if the regional government supplies the remaining five percent from its budget. Program activities are to include advanced professional training, employment and internship placement, relocation support, as well as technical and financial assistance to enable unemployed workers to start small businesses. Nationwide, the federal government expects to create one million jobs, train 160,000 workers, generate 50,000 jobs through small businesses, provide relocation assistance to 27,000 workers, and place 9,000 university graduates in internships.

¶13. (U) Regional plans are to consist of comparable activities for the same target groups: unemployed and underemployed workers as well as those at risk of termination. In addition, certain regions (oblasts) have also identified specific objectives based on the local economic context. The following illustrates the variety of regional programs under consideration:

-- Authorities in Bryansk plan to focus on arranging employment in the industrial, housing and communal service, agricultural, construction, and forestry sectors.

-- Job placement services will be critical in Yaroslavl, where extreme estimates predict 49,000 workers will lose their jobs this year.

-- Krasnoyarsk will include a competition for grants of up to 100,000 rubles to assist with small business start-up. The Krasnoyarsk labor and employment service also plans to assist unemployed workers in relocating to areas (within the region) where there is still a demand for labor, with an emphasis on investment projects in the electricity, mineral, hydrocarbon, heating, transportation, and forestry sectors.

¶4. (U) As of March 4, the Ministry of Public Health and Social Development had received 82 proposed programs, approved 44 through an interagency working group, and signed 30 agreements. It initially anticipated signing the remaining agreements by the end of last month. The federal labor and employment service has already transferred over 2.4 billion rubles in federal subsidies for programs to ten regions with signed agreements.

EXPERTS SKEPTICAL THAT REGIONAL PROGRAMS WILL IMPROVE THE LABOR SITUATION

¶5. (C) In conversations with us, experts at the Higher School of Economics (HSE), Independent Institute of Social Politics (IISP), Deutsche Bank, and the All-Russian Confederation of Labour (ARCL) were uniformly skeptical that the regional programs would succeed.

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¶6. (C) Some of the experts were convinced that the GOR's plans were insufficient to the problem. Yevgeni Gontmakher, head of the Social Policies Center of the Russian Academy of Sciences Institute of Economics, argued the government's measures were a step in the right direction, but he doubted they would be able to contain what he predicted would be massive unemployment growth. Deutsche Bank's Yaroslav Lisssovlik commented that similar government schemes to transfer resources to the regions in the 1990s failed to alleviate the unemployment situation, and said the GOR was unlikely to have learned from its past mistakes.

¶7. (C) Other experts cited the government's lack of expertise as a major impediment. In a recent interview with "Kommersant," Director of the Institute for the Management of Social Processes Tatiana Chetvernina commented that even if they received funding, federal and regional labor and employment agencies had no clue about what kinds of training and other assistance to offer the unemployed. HSE Director Vladimir Gimpelson told us professional retraining was problematic given the uncertainty of which professions or skills would be in demand after the crisis. ARCL's President Boris Kravchenko reported that regional governments had approached businesses and unions, but were unable to develop a firm idea of what kinds of skills workers would need in the future. Further, he noted, employment agencies in the regions were inundated with job seekers, and had to turn many away owing to staffing shortages.

¶8. (C) Finally, still another group of experts saw relocation assistance as a non-starter. IISP Regional Program Director Natalya Zubarevich doubted there would be many takers for relocation assistance given the fact that many of the vacancies in the labor and employment service's job bank were for minimum or below subsistence wage positions. The majority of positions listed with salaries actually above 20,000 rubles were in Moscow, where even that amount was insufficient to support a family. Andrey Ivanov, spokesman for the Tverskaya oblast governor, told "Vedomosti" his region (200 km outside of Moscow) was suffering from increased unemployment owing to the return of workers who lost their jobs in Moscow, bringing into question the

reliability of Moscow as a potential destination for relocated workers. Also, difficulties in obtaining residential permits, arranging new living quarters, and leaving existing social networks make relocation an unacceptable option for many unemployed in the regions.

LOANS AND TRAINING FOR SMEs FACE HARSH INSTITUTIONAL ENVIRONMENT

¶19. (C) Gimpelson was especially critical of the government's scheme to offer SME loans to the unemployed given the often hostile institutional environment for SME development in the regions. He noted, however, that some regional governments have developed their own approaches to small business development. For instance, Krasnoyarsk region plans to establish an internet portal with information on business start-up and provide competitive grants of up to 100,000 rubles for entrepreneurial activities. Altai region will assist unemployed workers starting businesses with documentation at municipal employment centers, pay registration fees, and provide entrepreneurship courses and consultations.

¶10. (C) In general, Gimpelson concluded, small businesses continue to face significant bureaucratic obstacles to successful development: burdensome inspections, taxes, and other administrative problems related to official corruption. None of the experts with whom we spoke believed the measures contained in regional programs would be sufficient to overcome these obstacles. They also underscored the point that the crisis had hit SMEs particularly hard, resulting in an ever-increasing number of bankruptcies in this sector.

COMMENT

¶11. (C) The government's programs to stimulate employment and counteract negative labor market trends are motivated largely by fears of potential social unrest. However, the regional employment programs are for the most part ill-conceived, and misappropriation of funds by corrupt regional officials will

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further limit their effectiveness. The programs are unlikely to improve the labor situation appreciably. End Comment.
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